RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Jan. 4, 1995 **LETTER 1164**

THE PICTURE: In the "Notes & Quotes" section of this Letter I include short reviews of two new books about super-investor, Warren Buffett (Buffett is widely known as "the second richest man in America" -- Bill Gates is the first). Warren Buffett is a true investment genius. He started his first fund back in 1956, and he's been coining money ever since. But remember, there's nothing like a primary bull trend to lend an investor a helping hand. Buffett had the mighty 1974-94 bull market behind him during a period when the S&P was appreciating by 15% a year -- of course, Buffett's Berkshire Hathaway fund appreciated by a heck of a lot more than 15% a year. Result -- billions for Warren.

But now the bear has entered the picture, and for this reason I expect that Buffett will not do as well as he has done over the past 20 years. However, as I said, Buffett is an investment genius, and unfortunately, the average stockholder is far from that. Therefore, I expect that this bear market is going to batter and bruise the average investor as well as the mutual funds, the hedge funds, and every other kind of fund.

The late, great primary bull market started in October 1974 and ended in January 1994. That made it the **longest** bull market in history and certainly one of the most speculative. Historically, the length of a bear market tends to be about a quarter to a third as long as the preceding bull market. On this basis I would expect the current bear market to last three to five years or possibly even longer.

I judge the current bear market to be only a one-year old baby. I also judge this bear market to be still in its **first (psychological) phase.** This is the phase where the enthusiasm, the froth and the speculative intensity of the previous bull market top is erased. This is the phase of the bear market where investors first realize that maybe, just maybe, the bull market is in trouble (of course, Dow Theorists know that the problem entails more than just "trouble," Dow Theorists know that the bull has died).

Some **bull markets** start slowly and gingerly as follows. First there is a period of accumulation. Stocks cease going down (at least most of them do), while at the same time seasoned investors move in to pick up bargains (subscribers who were with me in 1974 well remember this type of action). Then as investors gather courage, they increase their rate of accumulation. In this activity seasoned investors have little competition, since the public is largely out of the market and happy to be in cash. It's all part of the first phase of a bull market.

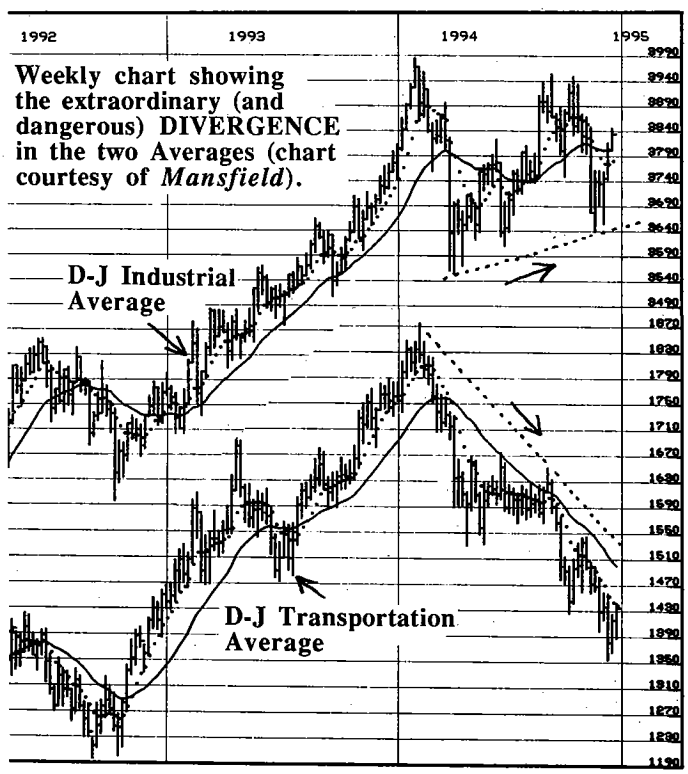
Just as timing is important in a bull market, it is equally important in a bear market. In the first phase of a **bear market** seasoned investors quietly slip out of their stocks. First one issue declines, then another, then a whole sector, and finally the entire market sinks lower (this can best be judged by the action of the advance-decline ratio).

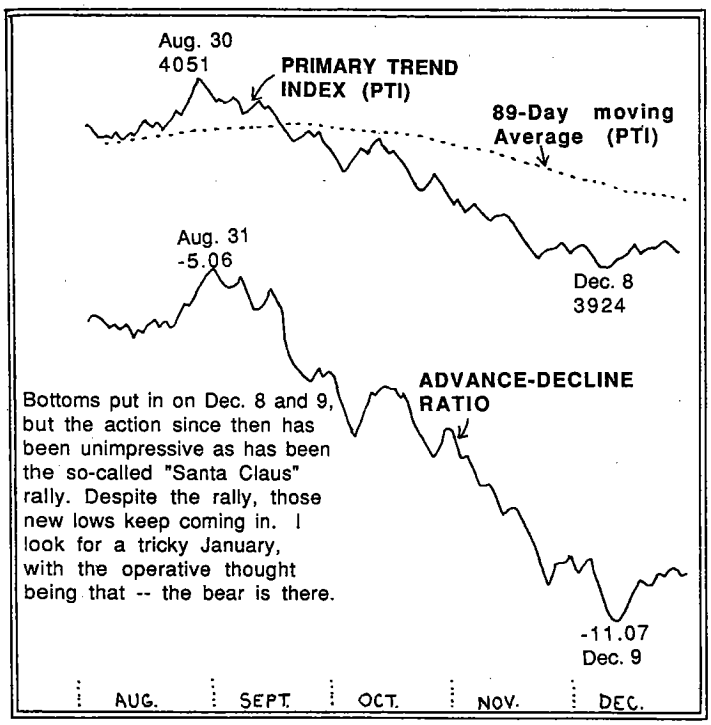
The great 1974-94 bull market required 20 years to complete. By bull market standards, that's a very LONG time. Consequently, I would expect the current bear market to stretch out in duration, which seems to be exactly what it's doing. Thus, we see this first phase of the bear market **extending** to the point where it is now "one year old" but still very much in force. How much longer this first phase will drag out -- I don't know. But it certainly is extending.

Dec. 23 DJIA 3833.43; PTI 3940; A-D Ratio -10.18
Dec. 29 DJIA 3833.43; PTI 3938; A-D Ratio -10.27
Dow Yield: 2.78%; Dow Price/Earnings: 18.0
Dow 200-day MA: 3773; Dow 30-day MA: 3762
Dow Times Book Value: 3.42; PTI 89-day MA: 3970
Percentage of Undervalued Blue-chips: 14%
Dow Low Risk Buy Index: -20; Gold-PTI: 777
Gold 200-day MA: 384.59

Following are a few items that I want to bring to the attention of readers. In Letter #1162 I included a piece on Microsoft. I called MSFT the stock to watch. If there was a single bellwether stock, a stock that represents the spirit of the '90s, it is MSFT. During 1994 MSFT had moved from 37 to a high of 66. The critical downside level was 60. On December 20 MSFT holders received a unwanted Christmas present -- MSFT broke below 60 (it did that on the news that its new "Windows" software program would not be shipped until August). Why should a bit of unpleasant news hit America's favorite glamour growth stock so hard? The stock was ready to decline, and the news simply provided the market with the needed excuse (in a bull market this kind of news wouldn't have budged the stock).

I consider the sheer number of mutual funds (4,000 or is it 5,000?) to be one of the "sicknesses" of the 1974-94 bull market. Why so many funds? Two reasons: (1) funds are easily and quickly sold to the public, and (2) management of a mutual fund is extremely profitable. But multi-thousands of mutual funds? It's absolutely ridiculous. The public has been sold on mutual funds as a convenient (and hopefully "safe") way to participate in the market. Before this bear market is over, I believe the phrase "mutual fund" will be a dirty word. Note: Leo Hood (publisher of *ProFiles*) has calculated that in 1994 2,800 equity mutual funds lost money, around 400 had a gain, and only 30-40 had a double digit gain. In other words, for every fund that enjoyed a gain, seven lost money.




Aug. 30
4051
PRIMARY TREND INDEX (PTI)
89-Day moving Average (PTI)
Aug. 31
-5.06
Dec. 8
3924
ADVANCE-DECLINE RATIO
Bottoms put in on Dec. 8 and 9, but the action since then has been unimpressive as has been the so-called "Santa Claus" rally. Despite the rally, those new lows keep coming in. I look for a tricky January, with the operative thought being that -- the bear is there.
-11.07
Dec. 9
AUG.
SEPT.
OCT.
NOV.
DEC.

I can't emphasize enough that **low yields** on the big stock averages constitute a danger signal. Average yields of below 3% on common stocks have always been a sign of overvaluation. And values are the very **essence of Dow Theory.** When the yield on the Dow (or the S&P) is below 3%, we have a time-tested sign that stocks are moving into a top area. How the top proceeds, how long it takes to complete, what shape it takes -- this will vary from bull market to bull market. Once in the over-valuation area, we watch for the Dow Theory bear signal pattern to herald the end. That signal came on March 25, 1994, and I sent out a "Special Letter" (dated April 1) to warn subscribers of what had occurred.

Strangely, almost no one on Wall Street or any other street noticed the primary bear signal of March 25. I felt at the time (and I still do) that this universal ignoring of the bear signal actually heightened the validity of the signal.

I continue to emphasize the importance of the April low for the Dow (that low was **3593.35**). The Transportation Average has sunk well below its own April low, but it remains for the Dow to confirm. I feel that if or when the April low is broken, almost all analysts (at least, those who have any technical knowledge) will concede that a primary bear market is in progress.

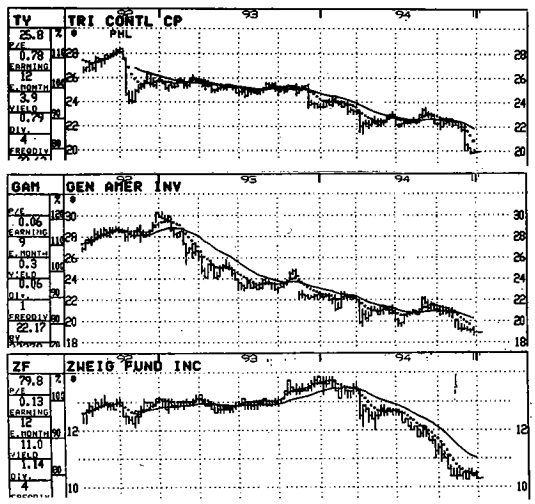
I consider the current market psychology and sentiment to be quite significant. Have you noticed that anytime the market goes down, the commentators (TV, radio, newspapers) ascribe the decline either to "profit taking" or "program selling"? Nobody talks about stocks going down because this is a bear market. No, I take these optimistic explanations, these excuses, simply as further proof that this bear market is for real and that the "experts" still don't want to accept the picture. One thing we might watch for is to see whether or when either *Barron's* or the *Wall Street Journal* start referring to the picture as a "bear market." So far, they have not.

I can't remember the last time the D-J Industrials and Transports were so consistently "out of gear." Day after day we have seen the Dow advance while the Transports decline or vice versa. On top of that we have the larger divergent picture of the Dow still holding within 8% of its bull market high while the heavily leveraged Transports have lost 23% of their peak price. When the Averages "disagree" as consistently and as flagrantly as they have here in '94, it's usually a sign of **distribution.**

Somewhere ahead I expect the three Averages (I include the Utilities) to get in harmony and to travel south together. We may have to wait for the Dow to break its April low before we see that kind of action, but it's going to happen. Remember, the scarcest commodity during a bear market is patience. In a bull market you can sit and watch dividends being increased, stocks milling about or rising, and good news emerging. It's not the same in a bear market, particularly if you're correctly positioned in (bor-r-r-ring) cash.

Starting back in the '50s I've followed a few big, well known closed-end funds. The oldest and largest of these is multi-billion dollar Tri-Continental (NYSE). TY has been around since the '20s. It even survived the Depression. One interesting thing about the closed-end funds is that they will often sell at a premium over net assets when a bull market is in force and when people are eager to own stocks. In a bear market these funds will sell at a discount to their net assets as investors cool off on common stocks. I remember in the early '50s when TY sold at a 41% discount to its blue chip portfolio. Right now TY is selling at a 13% discount from net assets.

General American Investors is another old-timer in the closed-end fund sector. Zweig Fund, which sold at a huge premium during the bull market (18% over assets) is a fairly new closed-end fund. All three stocks are shown here, charts courtesy of Mansfield).



John Liscio [*Liscio Report*, (201)509-2256] is that rare analyst who produces valuable and original research material. In his latest FAX John discusses his study of the six previous occasions when the yield on the 5-year T-note moves above the yield on the long T-bond (after being below the yield on the long bond for at least six months). This has happened again now -- so **if history repeats,** says Liscio, one year from now we can expect Fed Funds to be at 7.34%, three-month T-bills to yield 7%, three year notes to yield 9.25% and the long bond to yield 8.63%. **Russell comment:** If John's projections materialize, then I would think that the stock market would not take kindly to the situation (particularly in view of the current 2.8% yield on the Dow).

INFLATION-DEFLATION: This seems to be the mystery area of the economy and the markets. Nobody seems to agree on whether inflation or deflation is winning out. At the raw goods level (paper, zinc, aluminum, lead, etc.) there's no doubt that inflation has been in force. The price of raw goods has been booming.

But at the consumer level the competition is fierce, and many manufacturers have been unable to raise prices. That's the story so far, but it can change.

I just received a report from highly-respected economist Peter Bernstein of NYC. Bernstein writes, *"The evidence here confirms that wage inflation has passed its lowest point in this cycle and that it will accelerate in the course of 1995 and into 1996 . . . The easy part of managing inflation in this expansion is behind us. Again,*

what can the Fed do about it? Keep up the heat in the oven. Keep raising interest rates in order to make clear the risks of locking higher wages into the long-term relationships." Bernstein believes that the Fed's action in pushing up rates will usher in a bear market in stocks.

On the other hand, I just received this FAX from the venerable *Sindlinger* service out of Wallingford, PA. They say, *"Although last week's economic releases generally were in line with market expectations, showing strong economic growth with a little upturn in inflation, release of the Money Supply (M1, M2, M3) -- November showed an economy in serious trouble with business activity about to take a new plunge . . . Year-to-year M1 growth was the weakest it has been since February, 1990, before the last official recession . . . The broadest, regularly reported money supply, M3, showed continued declining annual growth . . . This has been the longest period of negative money supply growth since the Fed was established in 1913 and weakest money supply growth since the Great Depression . . . With annual M3 money supply growth falling at an accelerating pace since May 1944, a 'new' recession or a new down-leg in a protracted great contraction . . . is likely in early 1995 . . . Liquidity problems tied to the dollar and the banking system continue."*

So there you have it, one economist believes that inflation will heat up, forcing up interest rates and impacting on the stock market. The other economist believes that the persistent decline in money supply growth is pushing this nation towards recession. In the meantime, the Fed continues to focus on potential inflation with another interest rate boost probably slated for early in '95.

Russell opinion: The theories are interesting, but I'll just continue following the markets. Aside from what inflation we now see, I continue to feel that the bigger picture is deflation, although deflation might not enter the picture until later in 1995. And oh yes, so far gold does not act as if inflation is in the picture.

In the meantime, the bear is resting. He's taking a much-needed breather. The averages hit bottom temporarily, and eager players have rushed in once again -- to pick up what they hope are bargains. As we move into 1995 and beyond, I believe the market will prove them wrong, very wrong.

INVESTMENT POSITION: No, the bear isn't hibernating, he's just been taking a much needed rest. My advice is that you and I do the same. Which means sitting back, relaxing, seeing a good movie, or maybe even watching the NFL playoffs.

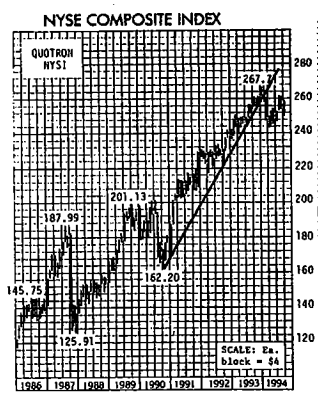
By the way, my football advice is -- never bet on football. The LA Raiders, projected at the beginning of the season to go to the Super Bowl, have now been eliminated. The San Diego Chargers, projected to be at the bottom of their division, have won the AFC West. If San Diego wins its next two games they go to the Super Bowl. Nobody on God's green earth (including me) believes that will happen (can contrary opinion work in football?).

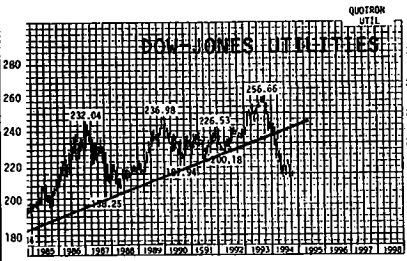
Buyers of US stocks, on average, have lost money. Buyers of foreign stocks, in many instances, have been slaughtered (Mexican stocks now down over 40% in dollar terms). Buyers of bonds are wondering what in the hell hit them. And what's the new game in town? It's guessing whether bond yields have peaked. Russell guess -- they haven't.

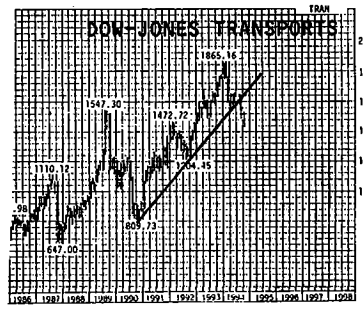
Remember my warnings -- *"In a bear market the one who loses the least is the winner."* The fiasco in the bond market, the Orange County debacle, the collapsing peso and Mexican stock market -- give the bear time and he'll make believers of us all.

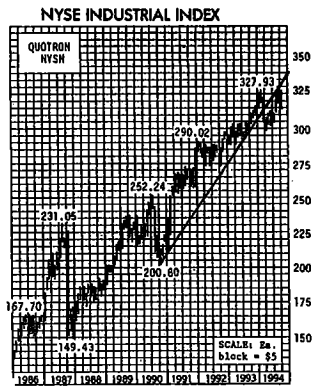
Russell's comment: It's a bear market. The security of choice is the **T-bill,** maturity three or six months. The "island of safety" -- gold coins. Favored position for Russell's subscribers -- in cash and on the sidelines. Winter's not even here yet.

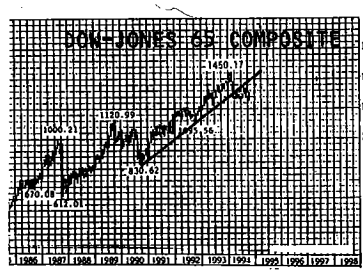
BREAKDOWNS: I borrowed this section from my old friend, Kennedy Gammage (*Richland Report,* PO Box 222, La Jolla, CA 92038). Besides being an incurable Chargers fan, Ken is a very keen, veteran market student. Says Ken, "In all that time (since the 1960s) the most consistently reliable SELL SIGNAL I have ever found (about 85%) is the breaking below a multi-year uptrend line on the MC Horsey (monthly) chart." Ken adds, "If these don't convince you that we are now in a primary bear market, get thee to an asylum!" **Russell comment:** Note that in all cases what we are now seeing is "pull-backs" under the trendline breaks.

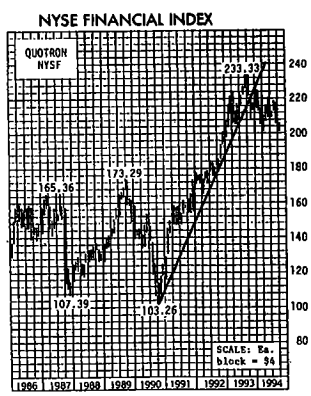


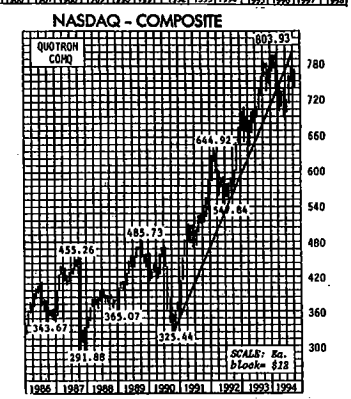


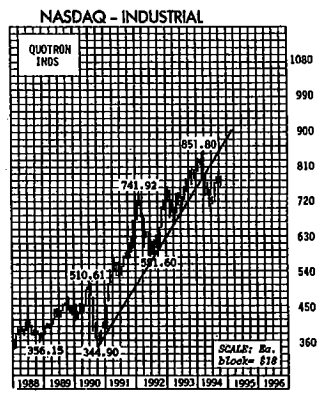


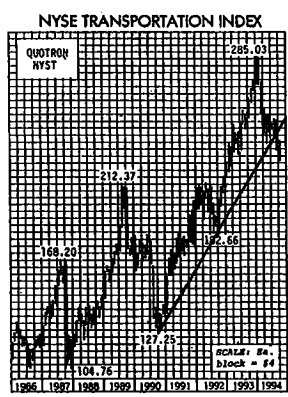












NOTES & QUOTES: Rough: Overworked corporate lawyer, that's what my wife, Faye is -- and as a result (sob) we didn't send out any Christmas cards this year. Faye's been working on an $100 million deal, and it obviously entailed a huge load of work. Listen to this -- last week (Monday) Faye left the house at 6:15 and returned from work 19 hours later at 1AM. It got worse. The next day she left again at 6:15AM again, and this time she returned at 4:15 AM the next day. You still want to be a corporate lawyer? Mull it over. I kept saying, "We've got to send out Christmas cards," and Faye kept saying, "I can't do it this year, I'm too tired, and I'm too tied up." So apologies to all our friends -- no, we didn't forget you, we just didn't send out any cards this year. But in '95 you going to get a card from us, count on it (and I don't care if GM merges with Ford and Faye's in on the deal, you WILL get a card in '95).

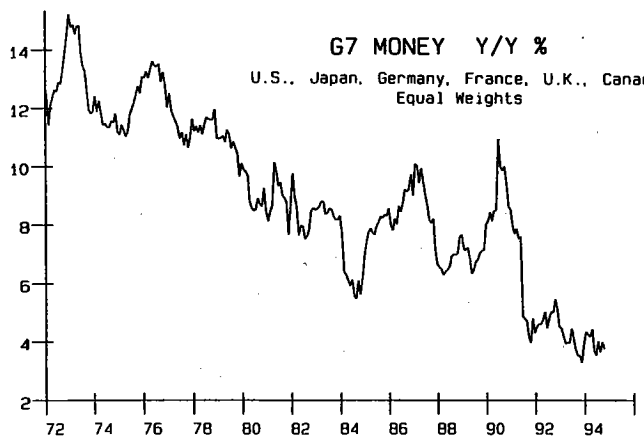
* *

I spent Christmas eve with my daughter Betsy's in-laws, the Hollywood Van Pattens. Dick Van Patten was in a wildly exuberant mood. He had just returned from Hollywood Park (he loves those horses). He'd put down $218 on the "Pick Six" and had miraculously picked all six winners. Pay off -- $25,000. Of course the IRS stepped in immediately to grab their share, leaving Dick with a cool $18,140. Which was a nice one-day's return on $218, but to be honest, I don't recommend betting on the horses as an alternative investment procedure.

* *

Ed Hyman of *ISI* writes, "For years we have worked with key executives at the nation's largest retailing chains, asking them each week to rate sales and **pricing power.** Last week they indicated that price competition, already extreme, has become even more intense. Specifically, they rated pricing power at a record low of 1.1, down from 1.4 on a scale of 1 = weak, 5 = strong." **Russell comment:** In other words, the current market is the most competitive market, price-wise, that Hyman's ISI Group has yet seen. With massive supply coming in from the US and all over the world, there is tremendous pressure on prices. And, of course, this is basically non-inflationary or actually deflationary.

Also deflationary is the record low in **money growth** for the G7 nations (US, Japan, Germany, France, UK, Canada, Belgium). This chart from *ISI* shows the trend over the past 22 years.



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Deficit: the US current account deficit for the third quarter at $41.7 was the largest in seven years (up from $37.9 in the second quarter). The current account includes "everything" from goods to services to inter-nation money transfers. The wider the current account deficit, the greater the strain on the dollar. Incidentally, the latest 12-month addition to the national debt was exactly **$300 billion,** with the **trend** of additions now heading higher. At this rate we'll add another trillion dollars to the national debt over the next three years!

* *

Welcome to the New America: the split between the US' educated, technically proficient workers and its uneducated, low-income workers (or non-workers) gets ever-wider. This is producing a huge underclass of welfare addicts and disadvantaged plus a rising torrent of criminals. This from the Dec. 29 *LA Times'* article on gangs: "By the time they are 18 years old, about 90% of the gang members in the LAPD's files have been arrested, and 75% have been arrested at least twice. By the time they reach age 20, more than half of those in the files are dead or in prison."

* *

Well, I took chelation treatment number 35 last week. The angina (chest pains) which I used to experience every month or so now have almost disappeared or at least they seem to have spread out to maybe once every three or four months. I credit this extraordinary improvement to chelation. Subscribers with heart conditions might want to learn more about chelation (intravenous infusions of EDTA). One easy way is to send for a VCR tape by Dr. William Mauer entitled, "Chelation, Stop Heart Disease and Avoid Bypass." Price is $39 plus $2.95 for postage and handling -- (800)782-2288. Note: most doctors are either ignorant of chelation or are negative on it. Consequently, insurance companies won't pay for it.

* *

I have a lot of respect for physicians, but they can be stubbornly wrong and wrong for long periods. Last week the AMA announced that they had reversed their long-held position on homosexuality. Up to now the AMA's stance was that unhappy homosexuals were suffering from an aberration and that through treatment they can be turned into heterosexuals. The new AMA stance is that homosexuality is inherent and that unhappy homosexuals cannot be turned into heterosexuals. We knew that years ago, but thanks anyway, doctors.

* *

BOOKS: Four new books are out, and all four are well worth reading. But wouldn't you know it, with equity values scarce and the yields on the Dow and the S&P well below 3% for the last two-and-a-half years, two new books are published about Warren Buffett, the great "value investor." One book, "The Warren Buffett Way" by Robert Hagstrom Jr. (Wiley publisher) is shorter, and perhaps a bit more technical. But it is nevertheless written well, and well worth reading. The second is a fat book (625 pages) entitled, "Of Permanent Value, The Story of Warren Buffett," by Andrew Kilpatrick (AKPE publisher). The book goes into a good bit of detail about Buffett, his life and his family, and I found it all extremely interesting. I'm not going to go into the whole story of billionaire Buffett, although I have followed his career and his stock, Berkshire Hathaway, since the 60s. Many years ago I bought Berkshire at 250, sold it at 500 for a fabulous double, and then watched it through the years as it climbed to its current price of above 20,000. Now that Buffett's the second richest man in the US, his story will undoubtedly set off a frenzy of "value buying." The problem -- at this stage of the game there aren't many values, and in a bear market the values may be there but the price/earnings ratios go down (as does the price of the values). Nevertheless, these are two good, informative books.

A third book is "Investment Biker" by multi-millionaire BMW motorcycle rider, Jim Rogers. The book is well written, fascinating, and covers travels, observations and investment ideas as the author spans the globe from NYC to Russia to Central Europe to Istanbul to China to places you and I have never heard of. And the amazing thing is that Rogers came back in one piece. I rode BMW motorcycles for years, but mostly around Long Island, NY and Southern California. Five years ago I switched to Harleys (not as good a bike, but more fun). Jim Rogers is a true contrarian, and if you've seen him on TV you know what I mean. But he does wear a suit and tie, if that's any consolation to conservative readers. The book is a treat; I recommend it.

A fourth new book is "The Craft of Investing" by veteran investor and financial writer, John Train (he wrote "The Money Masters"). This valuable book is chock full of advice and information, covering such subjects as market cycles, hard assets, art, precious stones, great growth stocks, the last great tax shelter, winning and losing strategies, etc. And oh yes (blush), on page 42 Train writes, "I have subscribed to many of these services off and on. Besides the basic Value Line service, I like to read Richard Russell's *Dow Theory Letters* for its many useful insights."

* *

A friend visited San Francisco last week; he called me and said he couldn't believe the number of vagrants wandering around the

streets. We have vagrants in La Jolla too. I used to be friendly with a fellow here; he was a night clerk at one of the local motels. I met him on the beach, and he seemed decent enough, a little vague, a bit weird, and always puffing on a cigarette. Then he got to drinking heavily, and in a few years he became another one of California's hollow-eyed homeless men. Now I see him wandering around town or walking along the beach. He is always carrying a sleeping bag. He sometimes appears in fair shape, but at other times he will be shaking and jerking as if suffering from delirium tremens. He avoids me and looks away if I try to talk to him.

There's another vagrant, a little lady, maybe aged 60, who schlumps (my word) through La Jolla with a shopping basket filled with God knows what (everything's wrapped in plastic bags). If I give her a dollar, she says, "Thank you kind sir." But one day I said, "How are you?," and she stopped and cursed me up and down for five minutes. Her vocabulary was amazing . . . Another heavily bearded young fellow (how come all vagrants have loads of hair?) trots through town every morning. The other day I sat in my car (it was 6:30AM) and watched this guy -- he stopped by every newspaper stand and every telephone booth, checking each one for lost change. He obviously had a regular morning route. I thought, with all the energy he must spend each day looking for dimes and quarters, he'd do better with any kind of a part-time job. But obviously, his mind-set is that he wants to live off society, and if he spends all morning searching for an abandoned quarter in a telephone slot, that's better than working at a legitimate job.

You see, everything is **self-perception**. If you grow up perceiving yourself as a success, the odds are that you'll be a success. If you grow up perceiving yourself as a failure or a beggar or an outcast or a criminal, that's probably how you'll end up. The greatest single thing that you can give a child is a **sense of self-worth.** I often wonder what kind of childhood these vagrants must have had. In most cases, my bet would be that they had ghastly, abusive childhoods. Furthermore, with few exceptions they lack the psychic strength to get better. Where does psychic strength come from? That's the great mystery. I think it must come from God. But one can gain psychic strength by consistently conquering adversity. Each battle won, no matter how small, renders one that much stronger . . . The criminal who does one good act may get to heaven before the good man who does one bad act. (Do you remember the criminal on the cross who Christ sent to heaven?)

* *

Tid-Bits from the World of Super-Finance . . . Champion weight-lifter Michael Vranos is leaving Kidder Peabody to join Ziff Brothers. Vranos is Wall Street's most powerful mortgage-bond trader -- he made a whopping $15 million at Kidder in '93. **Russell Comment** to young readers: If you sincerely want to make money, try this formula -- be brilliant and get into the money business. Or maybe be a movie star: Savoy Pictures just announced a deal with Sly Stallone -- Sly will get $20 million for a new movie, the film not yet decided on . . . Your hero and mine, Bill Gates, CEO of Microsoft, has just sold 20% of his projected Microsoft network to John Malone, CEO of Tele-Communications. Price was $125 million. This implies a value of $625 million for an on-line service that as of now doesn't exist . . . And Newt Gingrich (under pressure) has bowed out of a $4.5 million contract for two projected books, a smart but very costly move . . . Hey, is this a great country or what!

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I admit it -- I hate traveling. It's inconvenient, it's uncomfortable, and nothing in transportation seems to work. Then there are the costs and the rip-offs. Facts: Tokyo and Osaka are the world's most expensive cities. Taking NYC as a base of 100, Tokyo is 211, Osaka is 195, Zurich -- 140, Oslo is 137, Paris -- 128, Moscow --114, Hong Kong -- 113, Berlin -- 111, London -- 110, Milan -- 101, and bargain-town is Prague at 57.

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Grrrr . . . Here's how many days you have to waste in order to pay your taxes, and note the progression. In 1944,you worked until March 30. Now you work until May 5. No wonder they voted the Democrats out of Washington. Let's hope that Newt and his bunch do better. Personally, I think rising taxes are the single biggest thorn in the side of US citizens. Pray for the national sales tax and the end of the IRS. But it will take a real revolution to get rid of the current ghastly tax industry.

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Do you remember a year or so ago when everyone was hot for Hong Kong stocks? The HK stock market is now down a whopping 36% to a 14-month low. Chinese stocks have been hit hard, as have most Asian stocks. Hints of a coming world bear market.

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I live 30 miles north of the Mexican border so, naturally what happens in Mexico is of utmost interest to us gringos. First, the peso was overpriced, and in trying to hold up the value of the peso Mexico badly depleted its foreign reserves. On Nov. 1 Mexico's foreign reserves were $17.1 billion. By Dec. 18 Mexico's reserves had collapsed to $6.5 billion. That did it. Mexico devalued, and the peso plunged, losing over 40% of its international value in a matter of days. The new government (in power just three weeks) under Zedillo had promised prosperity and stability. But today markets run economies, not politicians. Under intense pressure from the foreign exchange markets, Mexico let the peso float free. This means that Americans going into Mexico will find prices considerably lower, while Mexicans coming here to buy US goods will find goods expensive (GATT enthusiasts might mull on this). Furthermore, there will be a much greater incentive for Mexican illegals to cross the border, earn "high priced" dollars here and then send those dollars back to Mexico . . . Examples of how the peso's fall will affect Mexicans -- two weeks ago a Mexican coming to the US paid 11 pesos for a gallon of milk. Now he'll pay 16 pesos. He used to pay 688 pesos for a 13" Magnavox TV; now he'll pay 940. He used to pay 23 pesos for a movie ticket in the US; now he'll pay 33. **Overall results:** Americans owning Mexican stocks and bonds got killed, taking a potential loss of around $13.5 billion (Mexican stock market down 43% for the year). Mexican goods look a lot cheaper to Americans. US exports to Mexico will drop substantially. Inflation and instability will return to Mexico. A stunning set back for the new Mexican government. Renewed suspicion about investing in Mexico or any of the Latin countries, for that matter (most S. Amer. stock markets dropped in sympathy).

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US newspapers are not having an easy time of it. Not only are they suffering from a poor growth rate in readership (does anyone in the US still read newspapers?), but newsprint prices have been rising rapidly. Newsprint accounts for a third of newspapers' operating costs, and since Jan. 1 the price of newsprint has zoomed 30% from $420 to $550 a ton.

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The Republicans want to cut the rate on capital gains. I've been saying that the low-tax nations enjoy a large advantage over high-tax nations like the US. For instance, low taxes allow for compounding, and nothing builds wealth like the ability to compound. As a matter of interest, below is a run down on capital gains taxes for various countries.

Capital Gains Tax Rates

	Maximum Long-term Rate	*Maximum Short-term Rate*
United States	34%	34%
United Kingdom	35%	35%
Sweden	18%	40%
Canada	17.51%	17.51%
France	15%	42%
West Germany	Exempt	50%
Belgium	Exempt	Exempt
Italy	Exempt	Exempt
Japan	Exempt	Exempt
Netherlands	Exempt	Exempt
Hong Kong	Exempt	Exempt
Singapore	Exempt	Exempt
South Korea	Exempt	Exempt
Taiwan	Exempt	Exempt
Malaysia	Exempt	Exempt

Source: Arthur Anderson and Company

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The Japanese birth rate is dropping to record lows. Why? One reason is that young Japanese women are postponing or actually avoiding marriage. Japanese women say that Japan is still a feudal, male-dominated state. Japanese men don't want to do any housework, they don't want to help with the children. Said Tomko Sezaki, a 24-year old airline clerk, "The wife has to do everything, the wash, the housecleaning . . . If you have a job you still have to get everything done before the husband gets home." Result: the Japanese birthrate is down to 1.6 children per Japanese woman -- only Italy has a lower birth rate among the industrialized nations. Why is Italy so low? Dunno, mmm, are Italians turning to virtual sex?

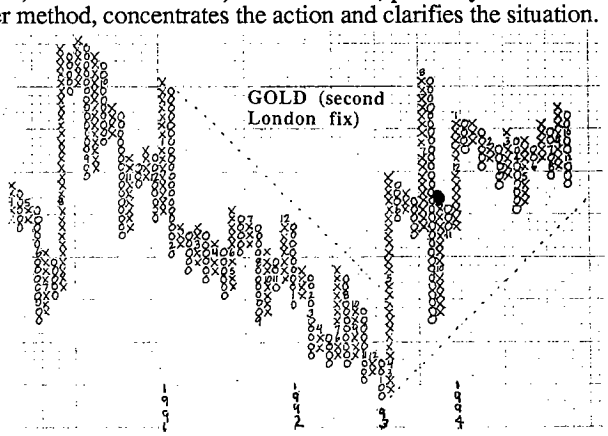
* *

Santa Claus a criminal? Better believe it. According to an article ("Debacle on 34th Street") in the *NY Times* (Dec. 25), Santa Claus broke the following laws: (1) Noise late at night, Second Degree Nuisance for disturbances on roof-tops, a misdemeanor in NY State. (2) Disobeying Federal Motor-Carrier safety standards by pulling sleigh powered by "eight tiny reindeer." (3) Disobeying Federal Long-distance Trucking laws which prohibit operating for longer than 10 hours at a time. (4) Claus did not have proper shipping documents for each item in sleigh. (5) Animal abuse; red-nosed reindeer is a rare, endangered species, and Claus endangered the animal by callously putting him in harness. (6) Claus made Improper entry into homes via chimneys, a misdemeanor in the state of NY. (7) Claus underpaid elf workers (if indeed they were paid at all), a clear violation of the 13th Amendment -- Claus will be charged with using slave labor. (8) Claus in violation of the Federal Aviation Administration's code, since Claus submitted no flight plan. **Russell Comment:** Is S. Claus the kind of person, an obvious felon, that you want in your home? Worse, do you want him anywhere near your kids?

GOLD: *"Gold is not necessary. I have no interest in gold. We'll build a solid state without an ounce of gold behind it. Anyone who sells above the set prices, let him be marched off to a concentration camp."* Adolph Hitler.

"Even during the period when Rome lost much of her ancient prestige, an Indian traveler observed that trade all over the world was operated with the aid of Roman gold coins, which were accepted and admired everywhere." Paul Einzig.

Gold has been doing little or nothing since last June. Let's turn to my point & figure chart (each box equals two points, Xs denote rallies, 0s denote declines). A P&F chart, probably better than any other method, concentrates the action and clarifies the situation.



NEXT MAILING: Jan. 18, 1995

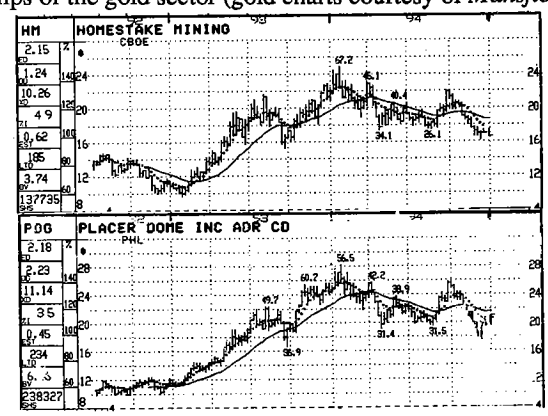
Gold (second London fix) hit a high of 404 last August. It then sank for a low of 346. From there gold traced out a series of three ascending bottoms, 346, 372 and 378. All the bottoms were bullishly ABOVE the rising trendline.

What next? A rally to 398 would be hopeful. A further rise to 406 would represent a very bullish breakout. Conversely, a decline to 370 would be bearish, and a decline to 368 (taking gold below its rising trendline) would be even more bearish.

One plus in the situation -- the commercials (i.e., the large gold users) have taken a strong position in gold, while the speculators have taken a heavy short position in gold. As a rule, the commercials will win the battle. A minus in the situation -- neither the Orange Country mess nor the peso devaluation had any bullish effect on gold.

Gold usually forms a bottom in the fourth quarter and rallies into the first quarter. The bottom seems to be in, but so far not much in the way of a rally. My thinking -- gold just isn't ready to do anything -- yet. The action is all in the currencies with the dollar again turning weak against the D-mark and Swissie.

My Gold-PTI (not shown) has pushed slightly off its 718 low set on Dec. 19 (current figure 777). Turning to two of the most widely-followed gold stocks we see Homestake going nowhere, caught in a range between 16 and 24. Its longer-term moving average is now at 19, meaning that HM would have to rally above 19 to turn even mildly bullish. By the same token Placer Dome has been wandering through a range of 19 to 28. Rallying above 22 would turn PDG mildly bullish, but PDG may be the gold stock to watch, since it has a very good following, and it's one of the real blue-chips of the gold sector (gold charts courtesy of *Mansfield*).



Obviously, the KEY to the gold stocks is the price of gold. The stocks are only going to move into a major bull trend if gold is also moving higher. In other words, gold and gold shares must confirm each other in direction. The gold shares have the leverage, but gold is the product.

LATE NOTES: The consensus among Wall Street's "experts" seems to be that we're in for a rough first quarter in 1995, and then we can enjoy an advancing market for the rest of the year. They remind us that the fifth year of the decennial pattern has always been UP. **Russell opinion** -- If there's to be a surprise (and I believe in surprises), here's what I think we could see in '95 -- consumers "freeze" and pull back sharply on their buying, and I'm talking about their buying of goods and merchandise, housing, stocks, bonds and mutual funds. If this occurs, the bear, of course, will love it. Remember, "bad things happen in bear markets." Early hint -- the current long list of new lows in the retail stocks, everything from Neiman Marcus to JC Penney, from K Mart to Toys "R" Us.

Bummer of the year end -- Clinton announcing (Dec. 29) that he'll run again in '96 (of course, the Republicans should love this). **Gold star** for the year end -- politicians finally realizing that Americans want less government and less taxes. **Hope** of the year end -- that the politicians will actually do something about it.

In closing, I want to thank my loyal subscribers for staying with me and reading all my bear market musings, reports and predictions. I know that it's a lot more fun reading about bull markets, fat profits and happy days. But in this business you have two choices: you deal with what you want or what you wish for -- or you deal with reality. Anyone who has been in the markets for a few years or more knows that reality is always the winner.

I love the markets. I've learned from the markets. But never forget that the markets are our masters. As investors (sad to say) the markets aren't there to serve us, they're there to beat us. Yet, the markets make some men rich, while they make others poor. We can't control the markets, but if we are willing to listen to what the markets say, that path can be a very profitable one. Here's to good listening and a happy and above all healthful 1995.